

NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

ROBERT "BOB" BURNS
BOYD DUNN
SANDRA D. KENNEDY
JUSTIN OLSON
LEA MARQUEZ PETERSON

In the matter of:)	DOCKET NO. S-21082A-19-0222
Kerease Gillman a/k/a Kerease Margita (d/b/a)	
Southwest Bookkeeping Service), and)	NOTICE OF OPPORTUNITY FOR HEARING
Timothy Gillman, wife and husband,)	REGARDING PROPOSED ORDER TO CEASE
)	AND DESIST, ORDER FOR RESTITUTION,
Respondents.)	ORDER FOR ADMINISTRATIVE PENALTIES
)	AND ORDER FOR OTHER AFFIRMATIVE
)	ACTION

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondent Kerease Gillman has engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

I.**JURISDICTION**

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.**RESPONDENTS**

2. During the timeframe relevant to this Notice, i.e., approximately 2008 through 2011, Kerease Gillman ("Gillman") was an Arizona resident and conducted her business within and from Arizona.

3. Gillman is the sole manager of 2009 Arizona Acquisitions, LLC ("2009AA"), a manager-managed, Arizona limited liability company formed by Gillman on April 1, 2009.

5. Gillman is the sole manager of 2011 Arizona Acquisitions, LLC ("2011AA"), a manager-managed, Arizona limited liability company formed by Gillman on September 23, 2011.

6. Timothy Gillman ("Respondent Spouse") has been the spouse of Gillman since January of 2015. Respondent Spouse is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital community.

7. At all times since January of 2015, Gillman was acting for her own benefit and for the benefit or in furtherance of her and Respondent Spouse's marital community.

III. FACTS

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8. From approximately November of 2008 through March of 2011, Gillman raised at least \$315,000 through the sale of unregistered securities in the form of membership units of 2009AA, 2010AA, and 2011AA.

9. Gillman sold twenty membership units of 2009AA, 2010AA, and 2011AA to eighteen investors from her place of business in Arizona but never registered as a securities salesman or dealer with the Commission.

10. In the process of offering and selling membership units of the 2009AA, 2010AA, and 2011AA, Gillman made false and misleading representations to potential investors, omitted material facts, and misappropriated investment capital and proceeds.

2009 Arizona Acquisitions, LLC

11. From approximately November of 2008 to April of 2009, Gillman used word-of-mouth referral, prior business relationships, and the website aztaxlienspecialist.com to offer investments in 2009AA.

12. The investment was structured as membership units in 2009AA, a limited liability company to be formed and managed by Gillman after investors provided her with investment capital.

1 13. Gillman represented to investors that 2009AA was an investment vehicle that she
2 would use to pool investment capital, purchase tax lien certificates, and foreclose on the underlying
3 properties to acquire title.

4 14. 2009AA would purportedly generate returns by acquiring title to properties through
5 foreclosure and distributing the properties to investors.

6 15. When Arizona property owners fail to pay taxes on their property, the county treasurer
7 places a tax lien on the property and sells the tax lien at auction to pay the delinquent taxes. The
8 purchaser at auction receives a tax lien certificate that entitles the purchaser to foreclose on the
9 property after three years if the tax lien is not redeemed by the property owner.

10 16. Gillman offered and sold membership units in 2009AA for a minimum investment of
11 \$10,000, but investors could increase their share of the profits by investing more money.

12 17. Gillman told investors that 2009AA would dissolve five years after its formation and
13 the properties held by 2009AA would be distributed to the investors in proportion to the amount of
14 their investment.

15 18. From approximately January 2009 to April 2009, Gillman sold membership interests
16 in 2009AA to nine investors who invested a combined total of \$167,000.

17 **2010 Arizona Acquisitions, LLC**

18 19. From approximately November of 2009 to April of 2010, Gillman used word-of-
19 mouth referral, prior business relationships, and the website aztaxlienspecialist.com to offer
20 investments in 2010AA.

21 20. The 2010AA investment was structured as membership units in 2010AA, a limited
22 liability company to be formed and managed by Gillman.

23 21. 2010AA was another pooled investment vehicle that would purportedly generate
24 returns by foreclosing on properties subject to tax liens and distributing the properties to investors.

22. As with 2009AA, Gillman offered and sold membership units in 2010AA for a minimum investment of \$10,000, and Gillman assured investors that she would disburse the properties and other assets held by 2010AA to the investors after five years.

23. From approximately January 2010 to April 2010, Gillman sold membership units of 2010AA to six investors who paid Gillman a combined total of \$80,000 in investment money.

2011 Arizona Acquisitions, LLC

24. From approximately January of 2011 to March of 2011, Gillman used word-of-mouth referral, prior business relationships, and the website aztaxlienspecialist.com to offer investments in 2011AA.

25. 2011AA was another pooled investment vehicle that would purportedly generate returns by foreclosing on properties subject to tax liens and distributing the properties to investors.

26. The 2011AA securities offering was structured as membership units in 2011AA and was nearly identical to the previous offerings in 2009AA and 2010AA.

27. Gillman offered and sold membership units in 2011AA for a minimum investment of \$10,000, and Gillman assured investors that she would disburse the properties and other assets of 2011AA to the investors after five years.

28. Between January 2011 and March 2011, Gillman sold membership units of 2011AA to five investors who paid Gillman a combined total of \$68,000 in investment money.

Allegations Common to All Three Offerings

29. Each investor in 2009AA, 2010AA, and 2011AA signed a form contract (“Investment Contract”) that explained the details of the investment, including the nature of the membership interest in 2009AA, 2010AA, and 2011AA and Gillman’s responsibilities as the manager of those entities.

30. Each investor in 2009AA, 2010AA, and 2011AA also signed a detailed operating agreement (“Operating Agreement”) that designated Gillman solely responsible for forming and managing the investment entities and left the investors no direct control over their investments.

1 31. The Investment Contract and the Operating Agreement (collectively the “Offering
2 Documents”) described how Gillman would manage the entities, how the investment money of the
3 members would be used, and how the proceeds of the ventures would be allocated among the
4 investors and Gillman.

5 32. The Investment Contract stated that Gillman would be entitled to a 25% share of the
6 profits of 2009AA, 2010AA, and 2011AA when each entity was dissolved.

7 33. The Investment Contract also authorized Gillman to take an upfront payment of 5%
8 of the total investment amount in each entity, equal to \$8,850 from 2009AA, \$4,000 from 2010AA,
9 and \$3,400 from 2011AA.

10 34. The 5% upfront payment to Gillman would be offset against her 25% share of the
11 profits, which gave the appearance that Gillman’s entire compensation was contingent on her
12 profitable management of the investment entities.

13 35. Gillman failed to disclose that she would take other compensation from 2009AA,
14 2010AA, and 2011AA that had no connection to the profits of each enterprise.

15 36. The Investment Contract used by 2009AA, 2010AA, and 2011AA authorized Gillman
16 to pay “Southwest Bookkeeping Service” \$50 per property to “maintain the records of acquisition
17 and foreclosure costs needed for the preparation of yearly taxes.”

18 37. Gillman never disclosed to the investors that “Southwest Bookkeeping Services” was
19 a d/b/a of Gillman, or that Gillman would direct 2009AA, 2010AA, and 2011AA to pay substantial
20 amounts of money to her own alter ego before making any distribution to the investors.

21 38. As the undisclosed alter ego of Southwest Bookkeeping Services, Gillman’s
22 compensation was not limited to 5% of the investment money upfront or 25% of the total profits as
23 she had represented to the investors.

24 39. By purchasing tax liens on behalf of 2009AA, 2010AA, and 2011AA and then paying
25 herself \$50 for each tax lien purchased, Gillman acquired more than \$22,000 in undisclosed
26 compensation before making any disbursements to the investors.

1 40. Through payments to Southwest Bookkeeping Service, Gillman engaged in other
2 undisclosed self-dealing and took additional compensation that would not be offset against her future
3 share of the profits and was not contingent on her profitable management of 2009AA, 2010AA, and
4 2011AA.

5 41. In addition to the \$50 specifically authorized by the Investment Contract, Gillman
6 paid Southwest Bookkeeping Service \$53,320 from 2009AA, \$59,237 from 2010AA, and \$63,594
7 from 2011AA for unspecified accounting services.

8 42. The Investment Contract detailed the various operational expenses of 2009AA,
9 2010AA, and 2011AA, including anticipated costs for legal fees, filing fees, postage, etc.

10 43. Gillman disclosed a \$50 per property charge for accounting services, but she omitted
11 the potential cost of other, unspecified accounting services that would total more than 54% of the
12 combined investment capital in 2009AA, 2010AA, and 2011AA.

13 44. Gillman paid her alter ego Southwest Bookkeeping Service at least \$176,151 more
14 than the amounts specifically authorized by the Investment Contract but failed to disclose this
15 potential cost to investors.

16 45. Gillman, who was involved in similar investment schemes before 2009AA and had
17 complete control of the accounting services in question, knew or should have known that unspecified
18 accounting services would be a substantial expense of 2010AA and 2011AA.

19 46. Within the first year of operating 2009AA and before selling any membership units
20 in 2010AA, Gillman had already directed 2009AA to spend \$4,500 for accounting services in
21 addition to the \$50 per property specifically authorized by the Investment Contract.

22 47. By the time Gillman began selling membership units of 2011AA in January of 2011,
23 2009AA had already paid Southwest Bookkeeping Service \$33,500 more than the \$50 per property
24 specifically authorized by the Investment Contract.

1 48. In conversations with investors and in the Investment Contract, Gillman agreed to use
2 the money invested in 2009AA, 2010AA, and 2011AA to purchase Arizona tax liens at auction, to
3 foreclose on the subject properties, and to disperse funds to pay the expenses of the entities.

4 49. Gillman did not disclose to the investors that she would take money from 2009AA,
5 2010AA, and 2011AA to pay for personal expenses unrelated to the operation of the entities.

6 50. In an email to an investor representative sent May 6, 2019, Gillman admitted that she
7 “took money out of” 2009AA, 2010AA, and 2011AA to pay for her personal expenses.

8 51. Although Gillman characterized her actions as “borrowing” and purportedly hoped to
9 repay the money from the proceeds of an unrelated lawsuit, Gillman never repaid the money that she
10 took from 2009AA, 2010AA, and 2011AA.

11 52. In discussions with investors and in the Offering Documents, Gillman represented that
12 she would dissolve 2009AA, 2010AA, and 2011AA five years after each entity was formed and
13 distribute their assets to the investors.

14 53. Gillman misrepresented that she would disburse the assets of 2009AA, 2010AA, and
15 2011AA to investors after five years, and failed to disclose that she would have the authority to
16 unilaterally extend the life of the 2009AA, 2010AA, and 2011AA, increasing operational costs while
17 delaying disbursement.

18 54. On or about April 28, 2014, without notice to the investors, Gillman unilaterally
19 amended the articles of organization for 2009AA to delay the automatic dissolution of the entity until
20 December 31, 2015.

21 55. On or about January 4, 2016, without notice to the investors, Gillman unilaterally
22 amended the articles of organization for 2009AA, 2010AA, and 2011AA, converting them into
23 perpetual entities.

24 56. Based on the Offering Documents and Gillman’s other representations, the 2009AA,
25 2010AA, and 2011AA investors expected to receive the proceeds of their investments five years after
26 investing, but Gillman has refused to disburse any of the assets to the investors.

(Offer or Sale of Unregistered Securities)

59. Gillman sold at least twenty membership units in 2009AA, 2010AA, and 2011AA to eighteen investors, and received at least \$315,000 in investment money.

60. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

61. This conduct violates A.R.S. § 44-1841.

(Transactions by Unregistered Dealers or Salesmen)

62. From November 2008 to March 2009, November 2009 to April 2010, and January 2011 to March 2011, Respondent Gillman offered or sold securities in the form of investment contracts within or from Arizona while not registered as a dealer or salesman pursuant to Article 9 of the Securities Act.

63. This conduct violates A.R.S. § 44-1842.

(Fraud in Connection with the Offer or Sale of Securities)

64. In connection with the offer or sale of securities within or from Arizona, Respondent Gillman directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue

1 statements of material fact or omitted to state material facts that were necessary in order to make the
2 statements made not misleading in light of the circumstances under which they were made; or (iii)
3 engaged in transactions, practices, or courses of business that operated or would operate as a fraud
4 or deceit upon offerees and investors. Respondent's conduct includes, but is not limited to, the
5 following:

6 a) Representing to 2009AA, 2010AA, and 2011AA investors that Respondent
7 Gillman would only receive 5% of the total money invested as upfront payment, while omitting that
8 she would also receive payment from 2009AA, 2010AA, and 2011AA prior to disbursement as the
9 alter ego of Southwest Bookkeeping Services;

10 b) Representing to investors that Respondent Gillman's compensation would
11 come solely from the profits of 2009AA, 2010AA, and 2011AA, while omitting that Gillman would
12 receive substantial compensation regardless of the profitability of 2009AA, 2010AA, and 2011AA
13 and before any disbursement to the investors;

14 c) Representing to investors in 2009AA, 2010AA, and 2011AA that Southwest
15 Bookkeeping Services would receive \$50 per property for bookkeeping services when Southwest
16 Bookkeeping Services would in fact receive at least \$176,151 for unspecified bookkeeping services
17 in addition to the \$50 per property;

18 d) Identifying the various anticipated expenses associated with the operation of
19 2009AA, 2010AA, and 2011AA, while omitting the much greater cost for unspecified accounting
20 services;

21 e) Misappropriating the funds invested in 2009AA, 2010AA, and 2011AA and
22 the proceeds of those investments by borrowing money to pay for personal expenses.

23 f) Misrepresenting to investors in 2009AA, 2010AA, and 2011AA that the assets
24 of the entities in which they invested would be distributed to investors five years after the entities
25 were formed; and
26

1 g) Representing to investors in 2009AA, 2010AA, and 2011AA that the
2 investment entities would dissolve after five years, while failing to disclose that Respondent Gillman
3 had the authority to unilaterally extend the life of the entities indefinitely.

4 65. This conduct violates A.R.S. § 44-1991.

5 VII.

6 REQUESTED RELIEF

7 The Division requests that the Commission grant the following relief:

8 1. Order Respondent Gillman to permanently cease and desist from violating the
9 Securities Act, pursuant to A.R.S. §44-2032;

10 2. Order Respondent Gillman to take affirmative action to correct the conditions
11 resulting from her acts, practices, or transactions, including a requirement to make restitution
12 pursuant to A.R.S. § 44-2032;

13 3. Order Respondent Gillman to pay the state of Arizona administrative penalties of five
14 thousand dollars (\$5,000) for each violations of the Securities Act, pursuant to A.R.S. § 44-2036;

15 4. Order that the marital community of Respondent Kerease Gillman and Timothy
16 Gillman be subject to any order of restitution, rescission, administrative penalties, or other
17 appropriate affirmative action pursuant to A.R.S. § 25-215; and

18 5. Order any other relief that the Commission deems appropriate.

19 VIII.

20 HEARING OPPORTUNITY

21 Each respondent including Respondent Spouse may request a hearing pursuant to A.R.S. § 44-
22 1972 and A.A.C. R14-4-306. **If a Respondent or a Respondent Spouse requests a hearing, the**
23 **requesting respondent must also answer this Notice.** A request for hearing must be in writing and
24 received by the Commission within 10 business days after service of this Notice of Opportunity for
25 Hearing. The requesting respondent must deliver or mail the request to Docket Control, Arizona
26 Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. Filing instructions may be

1 obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at
2 <http://www.azcc.gov/divisions/hearings/docket.asp>.

3 If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20
4 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or
5 ordered by the Commission. If a request for a hearing is not timely made the Commission may, without
6 a hearing, enter an order granting the relief requested by the Division in this Notice of Opportunity for
7 Hearing.

8 Persons with a disability may request a reasonable accommodation such as a sign language
9 interpreter, as well as request this document in an alternative format, by contacting Kacie Cannon,
10 ADA Coordinator, voice phone number (602) 542-3931, e-mail kcannon@azcc.gov. Requests
11 should be made as early as possible to allow time to arrange the accommodation. Additional
12 information about the administrative action procedure may be found at
13 <http://www.azcc.gov/divisions/securities/enforcement/AdministrativeProcedure.asp>

14 X.

15 ANSWER REQUIREMENT

16 Pursuant to A.A.C. R14-4-305, if a Respondent or a Respondent Spouse requests a hearing,
17 the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing
18 to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona
19 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be
20 obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site
21 at <http://www.azcc.gov/divisions/hearings/docket.asp>.

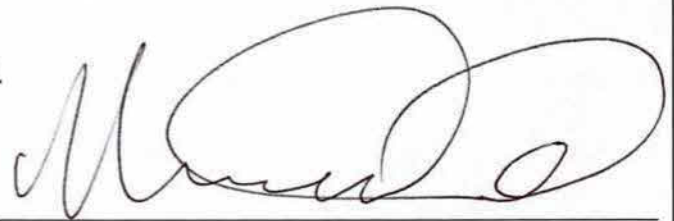
22 Additionally, the answering respondent must serve the Answer upon the Division. Pursuant
23 to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a
24 copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007,
25 addressed to Mitchell W. Allee.

1 The Answer shall contain an admission or denial of each allegation in this Notice and the
2 original signature of the answering respondent or respondent's attorney. A statement of a lack of
3 sufficient knowledge or information shall be considered a denial of an allegation. An allegation not
4 denied shall be considered admitted.

5 When the answering respondent intends in good faith to deny only a part or a qualification of
6 an allegation, the respondent shall specify that part or qualification of the allegation and shall admit
7 the remainder. Respondent waives any affirmative defense not raised in the Answer.

8 The officer presiding over the hearing may grant relief from the requirement to file an Answer
9 for good cause shown.

10 Dated this 26 day of September, 2019.

A handwritten signature in black ink, appearing to read 'Mark Dinell', is written over a horizontal line.

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13 Mark Dinell
14 Director of Securities
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